

DRAFT BUDGET FOR 2016/17 MTREF

29 March 2016

SUNDAYS RIVER VALLEY MUNICIPALITY

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DRAFT MTREF BUDGET FOR 2016/17 FINANCIAL YEAR

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SUNDAY'S RIVER VALLEY LOCAL MAYORS BUDGET SPEECH

Honourable Speaker

Executive members

Councillors

Officials

I greet you all in the name of service delivery.

The 2016 Budget Review notes that since the tabling of the Medium Term Budget Policy Statement (MTBPS) in October 2015 the global economic crisis has deepened, exposing the depth of South Africa's external vulnerabilities and the internal constraints that limit its potential for growth.

Sundays River Valley municipality is not immune to the realities of continued recession. Higher inflation and weaker employment growth will impact on the ability of the municipality to generate and collect revenue on services, to keep expenditures within budgeted allocations, and to borrow to fund capital expenditure programmes at affordable rates.

Therefore it is critical for municipality to review how they conduct their business to ensure value for money is obtained in all expenditures, that revenue administration systems are operating effectively, that borrowing programmes are realistic, and that creditors (including bulk service providers) continue to be paid timeously and in full.

As we strive towards impacting rural livelihood for the better in local Municipality of Sunday's River Valley, amongst the compliance issues is the submission of the MTREF budget as prescribed in section 126 of the Local Government: Municipal Finance Management Act 56 of 2003.

I therefore submit 2016/17 Draft Budget. The Council remains committed in improving its service delivery even though our budget is limited as the municipality is grant dependant and hoping to meet the

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challenges it faces and hopefully in future years, I will be able to report positively on the progress we have made in this regard.

In conclusion I would like to ensure our community that though the budget is limited but Sunday's River Valley municipality will remain committed in improving its service delivery. I also would like to express my appreciation to my fellow Council members, the Municipal Manager, The Chief Financial Officer and all other staff for their support, cooperation and hard work during the preparation of the budget as well as IDP.

MAYOR

Date :

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COUNCIL RESOLUTION

1. That in terms of section 24 of the Municipal Finance Management Act, 56 of 2003, the draft budget of the Sundays River Valley municipality for the financial year 2016/17; and indicative allocations for the two projected outer years 2017/18 and 2017/18; and the multi-year and single year capital appropriations are approved as set-out in the following tables:
 - 1.1. Budgeted Financial Performance (revenue and expenditure by standard classification);
 - 1.2. Budgeted Financial Performance (revenue and expenditure by municipal vote);
 - 1.3. Budgeted Financial Performance (revenue by source and expenditure by type); and
 - 1.4. Multi-year and single year capital appropriations by municipal vote and standard classification and associated funding by source.
2. That the financial position, cash flow, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are adopted as set-out in the following tables:
 - 2.1. Budgeted Financial Position;
 - 2.2 Budgeted Cash Flows;
 - 2.3 Cash backed reserves and accumulated surplus reconciliation;
 - 2.4 Asset management; and
 - 2.5 Basic service delivery measurement.
3. That in terms of section 24(2)(c)(i) and (ii) of the Municipal Finance Management Act 56 of 2003 and sections 74 and 75A of the Local Government: Municipal Systems Act 32 of 2000 as amended, the tariffs for the supply of water, electricity, waste services, sanitation services and property rates as set out in annexure A, that were used to prepare the estimates of revenue by source, are approved with effect from 1 July 2014.

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4. That in terms of section 24(2)(c)(iv) of the Municipal Finance Management Act 56 of 2003, the amendments to the integrated development plan , is approved
5. That the draft budget be approved subject to the proposals made by the Mayor to be considered in the final budget.

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1.3 THE BUDGET OVERVIEW

This section contains an Executive Summary of the Sunday's River Valley Local Municipality's Budget followed by a more detailed explanation of its Operating and Capital components over the next three years.

1.4 EXECUTIVE SUMMARY

In compiling the draft budget for 2016/17, the application of sound financial management principles for the compilation of the SRVM financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities consideration was given to the national priorities as communicated through National Treasury circulars.

National Treasury's MFMA Circular No. 79 was used to guide the compilation of the 2016/17 MTREF.

The main challenges experienced during the compilation of the draft 2017 MTREF budget can be summarised as follows:

- Ongoing national and local economy difficulties
- Collection rate not being at the desired levels to ensure cash backed budget is approved
- The municipality is still struggling to register all indigents, The registration has a direct influence on the share of Equitable Share that the municipality will receive in years to come.
- The need to prioritise projects and expenditure within the existing resources given the continued cash flow challenges within the municipality
- The increased cost (above consumer inflation) of bulk electricity and water, is placing upwards pressure on the municipal service tariffs which is unfavourable for residents

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The following budget principles and guidelines directly influenced the compilation of the draft annual budget of 2016/17:

- The 2015/16 Adjustment budget priorities
- The base line allocations contained in the Adjustment budget were adopted as upper limits for the new base line for the 2016/17 draft annual budget
- Tariff and property rates increase should be affordable and not exceed consumer inflation except where there are price increase in inputs beyond the municipality's control
- There will be no budget allocated to national or provincial funded projects unless the grants to the municipality are gazetted in the Division of Revenue Act
- The funding constraints with regards to the low available funding for the Capital Budget through the Cash backed Reserve

In view of the aforementioned, the following table is a consolidated overview of the proposed 2016/17 draft budget:

	Adjustments Budget	Budget Year	Budget Year +1	Budget Year +2
	2015/16	2016/17	2017/18	2018/19
	R'000	R'000	R'000	R'000
Total Operating Revenue	162 096	182 115	193 406	204 817
Total Operating Expenditure	200 414	212 872	224 220	237 250
Surplus/(Deficit)	(38 318)	(30 757)	(30 814)	(32 433)
Total Capital Expenditure	33 848	47 773	28 912	30 617

Total operating revenue has grown by 12.4 per cent or R20 million for the 2016/17 financial year when compared to the 2015/16 Adjustments Budget. For the two outer years, operational revenue will increase by 6.2 and 5.9 per cent respectively, equating to a total revenue growth of R42.7 million over the MTREF when compared to the 2015/16 financial year.

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Total operating expenditure for the 2016/17 financial year has been appropriated at R212.8 million and translates into a budgeted deficit of R33.4 million. When compared to the 2015/16 Adjustments Budget, operational expenditure has grown by 6 per cent in the 2016/17 budget and by 5.3 and 5.8 per cent for each of the respective outer years of the MTREF.

The capital budget of the municipality has increased by R13.9 million or by 41 per cent for the 2016/17 financial year when compared to the 2015/16 Adjustment Budget. A substantial portion of the capital budget will be funded from government grant transfers. The balance will be funded from internally generated funds provided all anticipated revenues are received.

1.5 OPERATING REVENUE FRAMEWORK

For the municipality to achieve its set targets in terms of service delivery it needs to generate sufficient revenue. Financial state of affairs of the municipality need difficult decisions to be made in terms of tariff increases and balancing expenditure against planned realistic anticipated revenues. Efficient and effective revenue management is thus critical.

The Municipality's revenue management strategy includes the following key components:

- National Treasury's guidelines in this regard;
- Growth in the revenue base;
- Efficient revenue management, aiming to improve annual collection rate for property rates and service charges, after discounting the Free Basic Services (FBS) subsidies;
- Electricity bulk tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Water bulk tariff increases as approved by the Department of Water Affairs (DWA);
- Ensuring fully cost reflective tariffs for trading services;
- The Property Rates Policy;
- The municipality's Indigent Policy and the rendering of Free Basic Services;
- The level of property rates and tariff increases must ensure financially sustainable service delivery.

The following table is a summary of the 2016/17 MTREF (classified by main revenue source):

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Table 2 Summary of revenue classified by revenue source

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17	2017/18	2018/19
R thousand	1	Audited Outcome	Audited	Audited	Original	Adjusted	Full Year	Pre-audit	Budget Year	Budget Year	Budget Year
<u>Revenue By Source</u>											
Property rates	2	13 014	13 933	28 889	12 781	35 836	35 836	-	37 126	38 314	39 042
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	15 622	14 495	17 609	20 089	7 034	7 034	-	7 587	8 184	8 925
Service charges - water revenue	2	12 743	20 019	25 547	7 624	5 939	5 939	-	5 969	5 999	6 029
Service charges - sanitation revenue	2	3 545	3 519	4 337	2 081	2 758	2 758	-	2 786	2 814	2 842
Service charges - refuse revenue	2	6 455	7 197	7 688	4 608	5 262	5 262	-	5 315	5 368	5 422
Service charges - other											
Rental of facilities and equipment		115	128	136	121	26	26		27	29	31
Interest earned - external investments		285	549	470	186	1 439	1 439		1 533	1 629	1 725
Interest earned - outstanding debtors		4 649	7 058	10 501	7 111	2 284	2 284		2 434	2 585	2 738
Dividends received											
Fines		1 907	2 012	3 671	609	4 038	4 038		4 304	4 571	4 841
Licences and permits		1 327	1 989	1 359	1 302	1 628	1 628		1 720	1 827	1 935
Agency services		1 577	1 121	1 520	1 363	1 711	1 711		1 824	1 937	2 051
Transfers recognised - operational		42 787	49 077	53 881	61 809	61 190	61 190		65 310	71 076	77 127
Other revenue	2	2 255	406	15 531	22 678	6 832	6 832	-	7 283	7 735	8 191
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		106 282	121 503	171 139	142 362	135 976	135 976	-	143 219	152 066	160 897

Table 3 Percentage growth in revenue by main revenue source

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Description	Adjusted Budget 2015/16	%	Budget Year 2016/17	%	Budget Year +1 2017/18	%	Budget Year +2 2018/19	%
Property rates	35 836	26%	37 126	26%	38 314	25%	39 042	24%
Property rates - penalties & collection charges		0%		0%		0%		0%
Service charges - electricity revenue	7 034	5%	7 587	5%	8 184	5%	8 925	6%
Service charges - water revenue	5 939	4%	5 969	4%	5 999	4%	6 029	4%
Service charges - sanitation revenue	2 758	2%	2 786	2%	2 814	2%	2 842	2%
Service charges - refuse revenue	5 262	4%	5 315	4%	5 368	4%	5 422	3%
Service charges - other		0%		0%		0%		0%
Rental of facilities and equipment	26	0%	27	0%	29	0%	31	0%
Interest earned - external investments	1 439	1%	1 533	1%	1 629	1%	1 725	1%
Interest earned - outstanding debtors	2 284	2%	2 434	2%	2 585	2%	2 738	2%
Dividends received		0%		0%		0%		0%
Fines	4 038	3%	4 304	3%	4 571	3%	4 841	3%
Licences and permits	1 628	1%	1 720	1%	1 827	1%	1 935	1%
Agency services	1 711	1%	1 824	1%	1 937	1%	2 051	1%
Transfers recognised - operational	61 190	45%	65 310	46%	71 076	47%	77 127	48%
Other revenue	6 832	5%	7 283	5%	7 735	5%	8 191	5%
Gains on disposal of PPE								
Total Revenue (excluding capital transfers and contributions)	135 976	100%	143 219	100%	152 066	100%	160 897	100%
Total Revenue from rates and service charges	56 830	42%	58 782	41%	60 678	40%	62 259	39%

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the municipality. In the 2015/16 financial year, revenue from rates and services charges totalled R56.8million. This increases to R58.7 million, R60.6 million and R62.2 million in the respective financial years of the MTREF. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity and newly implemented valuation roll.

Transfers recognised as operational receipts is the second largest revenue source totalling 46 per cent or R65 million rand and increases to 77.1 million by 2018/19. The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Interest earned for outstanding debtors has been budgeted using the adjusted 2015/16 budget baseline. Furthermore it is envisaged and it would be best practice for Council to write off outstanding debt where the likelihood of generating this income is low i.e. indigent households. This foreseen write off, will affect the final interest earned amount in the final budget and become more realistic at the end.

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Table 4 Operating Transfers and Grant Receipts

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16			2016/17 MTREF		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
RECEIPTS:	1, 2									
<u>Operating Transfers and Grants</u>										
National Government:		34 087	39 552	44 367	51 285	50 085	50 085	62 328	70 298	76 449
Local Government Equitable Share		36 314	40 327	46 351	52 292	52 292	52 292	59 318	67 953	73 849
EPWP Incentive		998	1 000	1 000	1 000	1 000	1 000	1 000		
Municipal Systems Improvement		779	890	934	930	930	930			
Integrated National Electrification Programme			500	-	1 500	1 500	1 500	-		
Finance Management		1 270	1 650	1 800	1 875	1 875	1 875	2 010	2 345	2 600
			-							
MIG Operational		191		-	1 243	1 243	1 243			
Provincial Government:		271	1 507	1 507	1 157	1 157	1 157	1 157	1 157	1 157
Small town revitalization		271	350	350						
Library Funding			1 157	1 157	1 157	1 157	1 157	1 157	1 157	1 157
District Municipality:		-	1 365	1 545	1 662	1 226	1 226	1 724	1 859	2 007
Environmental Health			990	1 170	1 287	1 226	1 226	1 349	1 484	1 632
Fire			375	375	375			375	375	375
Other grant providers:		2 784	3 069	-	150	95	95	101	108	114
DWAF										-
Other grant providers:		2 784	3 069		150	95	95	101	108	114
Total Operating Transfers and Grants	5	42 607	50 308	53 137	61 809	52 563	52 563	65 310	73 421	79 727

Tariff setting is a pivotal part of budget compilation. National treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Sundays River Valley has maintained an increase of 6.6% in line with the CPI but this is not a good measure for the municipality as the gap between cost drivers and tariff levies steadily widens.

The percentage increases of both Eskom and Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and in these tariffs are largely outside the control of the municipality.

Annexure is attached for the proposed tariff increase.

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1.6 OPERATING EXPENDITURE FRAMEWORK

The municipality's expenditure framework for the 2016/17 budget and MTREF is informed by the following:

- Funding of the budget over the medium-term is informed by the requirements of Section 18 and 19 of the MFMA;
- The balanced budget approach by limiting operating expenditure to the operating revenue;
- Strict adherence to the principle of "no budget allocations without a project implementation plan"; and
- Operational gains and efficiencies will be directed to funding the capital budget and other core services

The following table is a high level summary of the 2016/17 draft budget and MTREF (classified by main type of operating expenditure)

Table 5 Summary of Operating Expenditure by standard classification framework

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Expenditure By Type											
Employee related costs	2	31 682	38 277	41 132	47 294	47 326	47 326	-	50 890	53 145	56 812
Remuneration of councillors		4 930	5 165	5 369	5 301	5 953	5 953	-	6 310	6 689	7 090
Debt impairment	3	15 822	42 372	42 839	18 873	29 489	29 489	-	30 963	32 511	34 137
Depreciation & asset impairment	2	13 797	25 386	28 989	17 500	44 839	44 839	-	47 080	49 434	51 906
Finance charges		2 720	2 173	2 849	1 054	3 024	3 024	-	3 224	3 423	3 625
Bulk purchases	2	12 320	14 734	21 491	19 047	19 047	19 047	-	20 495	21 766	23 050
Other materials	8	11 843	6 380	2 121	7 097	6 108	6 108	-	6 512	6 915	7 323
Contracted services		2 446	-	-	1 951	3 527	3 527	-	3 565	3 786	4 010
Transfers and grants		-	-	-	-	-	-	-	-	-	-
Other expenditure	4, 5	24 143	35 785	39 882	41 101	41 101	41 101	-	43 832	46 550	49 296
Loss on disposal of PPE			2 511	906				-			
Total Expenditure		119 702	172 785	185 576	159 218	200 414	200 414	-	212 872	224 220	237 250

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Employee Costs

The budgeted allocation for employee related costs for the 2016/17 financial year totals R50 million, which equals 23.9 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7.6 per cent for the 2016/17 financial year. An annual increase of CPI + 1 per cent has been included in the two outer years of the MTREF.

Remuneration of Councillors

The cost associated with the remuneration of councillors is determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipal budget.

Debt Impairment

The provision of debt impairment for the 2016/17 financial year equates to R30 million based on annual collection rate of 60 per cent and related policy. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Depreciation and Impairment

Provision for depreciation and asset impairment has been informed by the Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R47 million for the 2016/17 financial and equates to 22 per cent of the total operating expenditure.

Bulk Purchases

Bulk purchases are directly informed by the purchase of electricity from Eskom and Water Affairs. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions.

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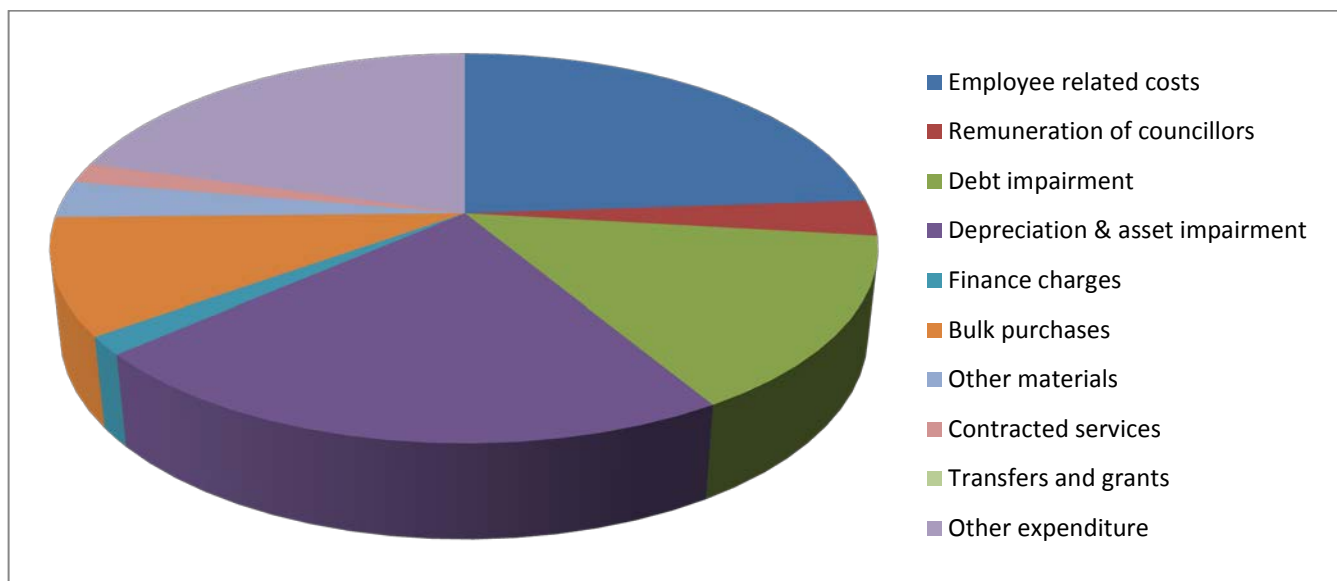
Finance Charges

Finance charges consist primarily of the repayment of interest on outstanding creditors. Finance charges amount to R3.2 million for the 2015/16 financial year. It should be noted that municipalities are encourage to maintain and meet their obligations to creditors within the prescribed timeframes. This area of expenditure should be monitored and avoided at all costs.

Other Expenditure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. This results from budgeting for all repayments thus decreasing our creditor thus ensuring sound financial management in the future.

The graph below reflects the expenditure components of the budgeted statement of financial performance



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1.7 CAPITAL EXPENDITURE

The Municipal Capital Budget is R47.7 million. Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Rehabilitation of Parks and Playground- R1 250 000
- Upgrading of Paterson Waste Water Treatment Works- R6 150 000
- Upgrading of Local Distributor Roads-Moses Mabida Ring Road- R3 000 000
- Rehabilitation of Bulk Pipeline in Kirkwood, Enon, Bersheba, Addo and Paterson- R2 074 000
- Upgrading of Gravel Roads- Emsengeni Bulk Taxi Route- R8 888 300
- Bersheba Sport fields- R850 000
- Valencia Multi Purpose Sport field- R 1 000 000
- Traffic and Licensing Vehicles-R2 000 000
- Upgrading of IT infrastructure-R2 000 000
- Construction of Buildings- R13 000 000

Total new assets represent 37 per cent or R17.8 million of the total capital budget while asset renewal equates to 62 per cent or R29.2 million. Further detail can be found in , MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class .

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Annexure 1- Budgeted Financial Performance

EC106 Sundays River Valley - Table A4 Budgeted Financial Performance (revenue and expenditure)

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand	1										
Revenue By Source											
Property rates	2	13 014	13 933	28 889	12 781	35 836	35 836	–	37 145	38 354	39 083
Property rates - penalties & collection charges											
Service charges - electricity revenue	2	15 622	14 495	17 609	20 089	7 034	7 034	–	7 696	8 419	9 210
Service charges - water revenue	2	12 743	20 019	25 547	7 624	5 939	5 939	–	5 969	5 999	6 029
Service charges - sanitation revenue	2	3 545	3 519	4 337	2 081	2 758	2 758	–	2 786	2 814	2 842
Service charges - refuse revenue	2	6 455	7 197	7 688	4 608	5 262	5 262	–	5 315	5 368	5 422
Service charges - other											
Rental of facilities and equipment		115	128	136	121	26	26		27	29	31
Interest earned - external investments		285	549	470	186	1 439	1 439		1 533	1 629	1 725
Interest earned - outstanding debtors		4 649	7 058	10 501	7 111	2 284	2 284		2 434	2 585	2 738
Dividends received											
Fines		1 907	2 012	3 671	609	4 038	4 038		4 304	4 571	4 841
Licences and permits		1 327	1 989	1 359	1 302	1 628	1 628		1 720	1 827	1 935
Agency services		1 577	1 121	1 520	1 363	1 711	1 711		1 824	1 937	2 051
Transfers recognised - operational		42 787	49 077	53 881	61 809	61 190	61 190		65 310	71 076	77 127
Other revenue	2	2 255	406	15 531	22 678	6 832	6 832	–	7 283	7 735	8 191
Gains on disposal of PPE											
Total Revenue (excluding capital transfers and contributions)		106 282	121 503	171 139	142 362	135 976	135 976	–	143 347	152 342	161 223
Expenditure By Type											
Employee related costs	2	31 682	38 277	41 132	47 294	47 326	47 326	–	50 890	53 145	56 812
Remuneration of councillors		4 930	5 165	5 369	5 301	5 953	5 953		6 310	6 689	7 090
Debt impairment	3	15 822	42 372	42 839	18 873	29 489	29 489		30 963	32 511	34 137
Depreciation & asset impairment	2	13 797	25 386	28 989	17 500	44 839	44 839	–	47 080	49 434	51 906
Finance charges		2 720	2 173	2 849	1 054	3 024	3 024		3 224	3 423	3 625
Bulk purchases	2	12 320	14 734	21 491	19 047	19 047	19 047	–	20 495	21 766	23 050
Other materials	8	11 843	6 380	2 121	7 097	6 108	6 108		6 512	6 915	7 323
Contracted services		2 446	–	–	1 951	3 527	3 527	–	3 565	3 786	4 010
Transfers and grants		–	–	–	–	–	–	–	–	–	–
Other expenditure	4, 5	24 143	35 785	39 882	41 101	41 101	41 101	–	43 832	46 550	49 296
Loss on disposal of PPE			2 511	906							
Total Expenditure		119 702	172 785	185 576	159 218	200 414	200 414	–	212 872	224 220	237 250
Surplus/(Deficit)		(13 420)	(51 282)	(14 438)	(16 856)	(64 439)	(64 439)	–	(69 525)	(71 878)	(76 027)
Transfers recognised - capital		22 965	22 841	36 377	23 620	26 120	26 120		38 896	41 145	47 456
Contributions recognised - capital	6	–	–	–	–	–	–	–	–	–	–
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions		9 545	(28 441)	21 939	6 764	(38 319)	(38 319)	–	(30 629)	(30 733)	(28 571)
Taxation											
Surplus/(Deficit) after taxation		9 545	(28 441)	21 939	6 764	(38 319)	(38 319)	–	(30 629)	(30 733)	(28 571)
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		9 545	(28 441)	21 939	6 764	(38 319)	(38 319)	–	(30 629)	(30 733)	(28 571)
Share of surplus/ (deficit) of associate	7										
Surplus/(Deficit) for the year		9 545	(28 441)	21 939	6 764	(38 319)	(38 319)	–	(30 629)	(30 733)	(28 571)

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Annexure 2- Budgeted Capital Expenditure

SUNDAYS RIVER VALLEY MUNICIPALITY

Vote Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
Capital expenditure - Vote											
Multi-year expenditure to be appropriated	2										
Vote 1 - Executive and Council		-	-	-	-	-	-	-	-	-	-
Vote 2 - Municipal Manager		-	-	-	-	-	-	-	-	-	-
Vote 3 - Budget and Treasury		-	-	-	-	-	-	-	-	-	-
Vote 4 - Corporate Service		-	-	-	-	-	-	-	-	-	-
Vote 5 - Community Service		-	-	-	-	-	-	-	-	-	-
Vote 6 - Technical Services		-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital multi-year expenditure sub-total	7	-	-	-	-	-	-	-	-	-	-
Single-year expenditure to be appropriated	2										
Vote 1 - Executive and Council		-	(6 476)	-	100	-	-	-	-	-	-
Vote 2 - Municipal Manager		-	-	334	13 382	2 000	2 000	2 000	12 334	-	-
Vote 3 - Budget and Treasury		60	3 162	978	1 588	490	490	490	245	-	-
Vote 4 - Corporate Service		147	684	2 582	1 930	3 798	3 798	3 798	2 099	-	-
Vote 5 - Community Service		-	-	2 498	5 267	4 247	4 247	4 247	3 125	-	-
Vote 6 - Technical Services		16 277	31 195	36 678	22 796	23 313	23 313	23 313	29 971	28 912	30 617
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
Capital single-year expenditure sub-total		16 485	28 565	43 069	45 064	33 848	33 848	33 848	47 773	28 912	30 617
Total Capital Expenditure - Vote		16 485	28 565	43 069	45 064	33 848	33 848	33 848	47 773	28 912	30 617
Capital Expenditure - Standard											
Governance and administration		207	(2 630)	3 894	17 000	6 288	6 288	6 288	14 677	-	-
Executive and council		-	(6 476)	334	13 482	2 000	2 000	2 000	12 334		
Budget and treasury office		60	3 162	978	1 588	490	490	490	245		
Corporate services		147	684	2 582	1 930	3 798	3 798	3 798	2 099		
Community and public safety		-	-	2 498	5 267	4 247	4 247	4 247	2 885	-	-
Community and social services				1 000	4 857	4 247	4 247	4 247	340		
Sport and recreation											
Public safety				1 498	410				2 545		
Housing											
Health											
Economic and environmental services		-	-	-	3 100	1 440	1 440	1 440	-	-	-
Planning and development		-			3 100	1 440	1 440	1 440			
Road transport											
Environmental protection											
Trading services		16 277	31 195	36 678	19 373	21 873	21 873	21 873	5 765	-	-
Electricity			6 949	2 727	412	412	412	412	-		
Water			12 927	10 447	-	2 500	2 500	2 500	5 450		
Waste water management		7 000	6 031	19 578	3 207	3 207	3 207	3 207			
Waste management		9 277	5 289	3 926	15 754	15 754	15 754	15 754	315		
Other					324		-	-	24 446	28 912	30 617
Total Capital Expenditure - Standard	3	16 485	28 565	43 069	45 064	33 848	33 848	33 848	47 773	28 912	30 617
Funded by:											
National Government		16 277	31 595	37 678	23 620	26 120	26 120	26 120	29 896	28 912	30 617
Provincial Government											
District Municipality											
Other transfers and grants			(6 476)								
Transfers recognised - capital	4	16 277	25 119	37 678	23 620	26 120	26 120	26 120	29 896	28 912	30 617
Public contributions & donations	5										
Borrowing	6										

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Annexure 3- Budgeted Financial Position

EC106 Sundays River Valley - Table A6 Budgeted Financial Position

Description		Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
R thousand			Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
ASSETS												
Current assets												
Cash			95	–	991	2 000	2 529	2 529	2 529	1 000	1 171	1 240
Call investment deposits	1		6 196	7 127	19 521	–	21 000	21 000	21 000	10 000	8 250	5 823
Consumer debtors	1		23 726	8 011	19 208	47 768	28 200	28 200	28 200	28 490	28 952	29 412
Other debtors			950	2 222	3 743							
Current portion of long-term receivables						3	3	3	3	3	3	3
Inventory	2		158	13	225	158	368	368	368	392	285	452
Total current assets			31 125	17 374	43 688	49 929	52 100	52 100	52 100	39 886	38 662	36 931
Non current assets												
Long-term receivables												
Investments												
Investment property			28 364	22 808	22 808	42 498	22 808	22 808	22 808	22 808	22 808	22 808
Investment in Associate												
Property, plant and equipment	3		370 572	481 472	493 846	327 216	482 855	482 855	482 855	505 628	532 072	533 689
Agricultural												
Biological												
Intangible			972	458	448	830	830	830	830	750	794	706
Other non-current assets				322	322							
Total non current assets			399 908	505 061	517 424	370 543	506 493	506 493	506 493	529 186	555 674	557 203
TOTAL ASSETS			431 033	522 434	561 112	420 473	558 594	558 594	558 594	569 072	594 336	594 134
LIABILITIES												
Current liabilities												
Bank overdraft	1											
Borrowing	4		2 610	11 868	9 474	451	1 352	1 352	1 352	–	–	–
Consumer deposits			262	270	281	275	577	577	577	300	318	337
Trade and other payables	4		28 923	22 009	40 781	22 922	27 922	27 922	27 922	21 540	15 800	16 870
Provisions												
Total current liabilities			31 794	34 147	50 537	23 647	29 851	29 851	29 851	21 840	16 118	17 207
Non current liabilities												
Borrowing			7 656	2 580	1 176	2 606	354	354	354	354	354	354
Provisions			19 435	36 070	37 824	15 823	22 201	22 201	22 201	38 024	32 224	41 724
Total non current liabilities			27 091	38 650	38 999	18 429	22 554	22 554	22 554	38 378	32 578	42 078
TOTAL LIABILITIES			58 886	72 797	89 536	42 077	52 405	52 405	52 405	60 218	48 696	59 285
NET ASSETS			372 147	449 637	471 577	378 396	506 188	506 188	506 188	508 855	545 640	534 849
COMMUNITY WEALTH/EQUITY												
Accumulated Surplus/(Deficit)			372 147	449 637	471 577	388 847	506 188	506 188	506 188	508 855	545 640	534 849
Reserves	4		–	–	–	–	–	–	–	–	–	–
TOTAL COMMUNITY WEALTH/EQUITY			372 147	449 637	471 577	388 847	506 188	506 188	506 188	508 855	545 640	534 849

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Annexure 4- Budgeted Cash flows

EC106 Sundays River Valley - Table A7 Budgeted Cash Flows

Description	Ref	2012/13	2013/14	2014/15	Current Year 2015/16				2016/17 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2016/17	Budget Year +1 2017/18	Budget Year +2 2018/19
R thousand											
CASH FLOW FROM OPERATING ACTIVITIES											
Receipts											
Property rates, penalties & collection charges		–	28 889						14 725	15 638	16 560
Service charges		33 383	48 698	47 421	48 220	39 572	39 572	39 572	14 165	15 043	15 930
Other revenue		2 525	39 790	46 147		–	–	–	15 159	27 241	8 857
Government - operating	1	69 732	49 077	90 258	61 809	61 190	61 190	61 190	65 310	71 076	77 127
Government - capital	1		22 841		23 620	26 936	26 936	26 936	38 896	41 145	47 456
Interest			7 607	10 971	3 757	2 733	2 733	2 733	3 968	4 214	4 463
Dividends									–	–	–
Payments											
Suppliers and employees		(81 609)	(170 117)	(125 339)	(110 747)	(115 580)	(115 580)	(115 580)	(131 605)	(141 851)	(136 081)
Finance charges		(2 720)	(2 068)	(2 408)	(478)	(1 294)	(1 294)	(1 294)	(3 224)	(3 423)	(3 625)
Transfers and Grants	1				(1 764)				–	–	–
NET CASH FROM/(USED) OPERATING ACTIVITIES		21 312	24 717	67 049	24 417	13 557	13 557	13 557	17 393	29 083	30 686
CASH FLOWS FROM INVESTING ACTIVITIES											
Receipts											
Proceeds on disposal of PPE		3	–						–	–	–
Decrease (Increase) in non-current debtors				339					–	–	–
Decrease (Increase) other non-current receivables									–	–	–
Decrease (Increase) in non-current investments									–	–	–
Payments											
Capital assets		(16 485)	(28 565)	(43 069)	(45 064)	(33 348)	(33 348)	(33 348)	(47 773)	(28 912)	(30 617)
NET CASH FROM/(USED) INVESTING ACTIVITIES		(16 481)	(28 565)	(42 731)	(45 064)	(33 348)	(33 348)	(33 348)	(47 773)	(28 912)	(30 617)
CASH FLOWS FROM FINANCING ACTIVITIES											
Receipts											
Short term loans									–	–	–
Borrowing long term/refinancing									–	–	–
Increase (decrease) in consumer deposits						21	21	21	–	–	–
Payments											
Repayment of borrowing		(764)	(3 450)	(4 368)		1 787	1 787	1 787	–	–	–
NET CASH FROM/(USED) FINANCING ACTIVITIES		(764)	(3 450)	(4 368)	–	1 808	1 808	1 808	–	–	–
NET INCREASE/ (DECREASE) IN CASH HELD		4 068	(7 298)	19 950	(20 647)	(17 983)	(17 983)	(17 983)	(30 380)	171	69
Cash/cash equivalents at the year begin:	2	2 223	6 291	562	7 335	20 512	20 512	20 512	31 380	1 000	1 171
Cash/cash equivalents at the year end:	2	6 291	(1 007)	20 512	(13 312)	2 529	2 529	2 529	1 000	1 171	1 240

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2.1 OVERVIEW OF THE ANNUAL BUDGET PROCESS

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year a time schedule that sets out the process to revise the IDP and prepare the budget

The 2016/17 MTREF Budget preparation commenced in August 2015 after Council approved a timetable for the IDP and Budget preparation process.

The Budget comprises both Operating and Capital Budgets, which is a requirement of the Constitution and the Municipal Finance Management Act (MFMA). Sections 1.8 and 1.9, present an overview of the Operating and Capital Budgets respectively, with high level tables, which provide an overall picture of the Municipality's finances.

One of the objectives of the budget timetable is to ensure integration between the development of the Integrated Development Plan (IDP) and the Budget. The IDP is the strategic plan of the Municipality and it is critical that the Budget enables the achievement of the IDP objectives. Table 1 illustrates the link between the IDP and Budget.

2.2 FINANCIAL MODELLING

As part of the compilation of the 2016/17 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2016/17 MTREF:

- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e inflation, Eskom increases, household debt)

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- Performance trends
- The approved 2015/16 adjustments budget and performance against the SDBIP
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 79 has been taken into consideration in the planning and prioritisation process

2.3 FREE BASIC SERVICE

The municipality is currently working with consultants, CDW in terms of improving its Indigent register updates and Management of Indigent. Currently the municipality provides and has budgeted for the following benefits to registered indigent households:

- Electricity: A subsidy of fifty (50) Kilowatts of electricity per property per month to registered households will apply.
- Refuse Removal: A subsidy, not more than the applicable tariff for the 2016/17 financial year, will be applied for the duration of the financial year.
- Sanitation: A subsidy, not more than the applicable tariff for the 2016/17 financial year, will be applied for the duration of the financial year.
- Water: A subsidy of 6 Kiloliters of water per property per month to registered households will apply.

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2.4 OVERVIEW OF BUDGET RELATED POLICIES

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

Review of credit control and debt collection procedures/policies

The credit control and debt collection policies as approved by Council in 2010 has been reviewed. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt, applying fixed interest instead of prime plus one for outstanding debt of customers.

In addition emphasis has to be placed on speeding up the indigent registration approval by Council prior to the final 2016/17 Annual Budget and MTREF process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

This policy has been reviewed and an amended policy will be given for extensive consultation by Council

Asset Management Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. The Asset Management Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

This policy has been reviewed and an amended policy will be given for extensive consultation by Council

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Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in 2010 has been reviewed. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on. Amendments are made in terms of National Treasury Regulations and changes within SCM

As annexure find all budget or financial policies for finance which will be presented to Council for consultative purposes prior to approval of the final budget.

Tariff Policy

The Municipal Systems Act requires a municipality to have a tariff policy. One of the challenges in setting tariffs is ensuring affordable tariffs whilst maintaining financial stability. The tariff policy tries to address this issue and creates a foundation for the principles that address social, economic and financial imperatives that the process of tariff setting should take into account.

Changes proposed: None

Rates policy

Sundays River Valley has adopted a rates policy which is line with legislative requirements. The policy became effective 01 July 2009.

The policy provides that properties be rated based on their market value. The valuation roll is still valid for one year.

Changes proposed: None

Indigent Policy

This policy was reviewed and approved during the 2009/2010 financial year.

Sundays River Valley municipality is committed to ensure that all households have access to its services. Due to the fact that Sundays River Valley Municipality has a high level of unemployment and seasonal workers, the municipality decided to adopt an indigent policy.

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This policy will ensure that poor households have at least access to basic services.

Changes proposed: None

Banking and Investment policy

As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.

The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cashflow management program.

Changes proposed: None

Policy on the writing off of irrecoverable debt

Despite strict enforcement of the credit control and indigent policies, Council will continuously be confronted by circumstances requiring the possible write-off of irrecoverable debt. To allow this the Credit Control Policy, inter alia, stipulated that:-

The Municipal Manager must establish effective administrative mechanisms, processes and procedures to collect money that is due and payable to the municipality.

In addition, the policy further stipulates that:-

The purpose of this policy is to ensure that the principles and procedures for writing off irrecoverable debt are formalized.

Changes proposed: None

Financial management policy

This policy incorporates amongst others regulations relating to:

- General budgeting principles and processes
- Levying of tariffs, fees and charges
- Collection and control of income
- Operating expenditure
- Capital expenditure
- Creditors and payments
- Salaries & Wages
- Petty Cash

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- Asset management
- Investments
- Risk management and Insurance
- Loans

Changes proposed: None

It should be noted that these policies have been reviewed but have not been work shopped to Councillors accordingly

2.5 BUDGET STRATEGY & ASSUMPTIONS

Budget Strategy

The following guidelines were used to compile the 2016/17 to 2018/19 Operating and Capital budgets:

- (a) That the annual increases for the 2016/17 to 2018/19 draft Operating Budget be limited to the following and be reviewed during the process, if considered necessary:
 - The overall increase in operating expenditure is based on the projected CPIX of 6, 6%.
 - The overall increase in employee related costs be aligned to finalized agreement by the SALGBC at 6,6% plus 1 and make provision for critical posts to address service delivery targets
 - Bulk purchases increase as per ESKOM and NERSA guidelines of 9.4 %
 - Rates and tariff escalations be limited to 6.6%

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Budget assumptions

Budget assumptions/parameters are determined in advance of the budget process to allow budgets to be constructed to support the achievement of the longer-term financial and strategic targets.

The following principles and guidelines directly informed the compilation of the Budget:

- The priorities and targets in relation to the key strategic focus areas as determined in the IDP.
- The level of property rates and tariff increases to take into account the need to address maintenance and infrastructural backlogs, including the expansion of services.
- An assessment of the relative capacity to implement the Budget.
- No budget allocation has been made to programmes and projects, unless the respective programme and project plans have been submitted by the relevant Directors.
- The need to enhance the municipality's revenue base.

2.6 FUNDING OF THE BUDGET

The budget is funded from two major sources:

- Realistic expected revenue from operations (Property rates and service charges)
- Grants and subsidies (cash backed allocations from government)

On-going issues requiring monitoring and evaluation

The municipality is closely monitoring certain issues that could have a significant financial impact on future budgets. If one or more of them require substantial resources beyond what is included in the mid-term budget, the municipality will have to adjust its spending plans to maintain its financial position. Many of the items listed below could have major and permanent impacts on the operating budget, and would therefore require permanent increases in revenue, or reductions in other services. Consequently, they should be carefully monitored and evaluated:

- Maintenance backlogs in roads, electricity and municipal properties

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- Staffing requirements and the impact on the personnel expenditure target;
- Acceptance and implementation of funded mandates; e.g. Disaster management and Library Services;
- Improving on current collection rates especially household debt

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QUALITY CERTIFICATE

I, Lonwabo Ngoqo, Municipal Manager of Sundays River Valley municipality, hereby certify that the draft annual budget 2016/17 and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the draft annual budget and supporting documentation are consistent with the draft Integrated Development Plan of the municipality.

L.M.R. NGOQO

MUNICIPAL MANAGER OF SUNDAYS RIVER VALLEY MUNICIPALITY – EC106

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SIGNATURE

DATE: 29 March 2016